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SIPDIS
SENSITIVE

STATE FOR WHA/CAR (ACADIEUX) (VDEPIRRO) (WSMITH)
WHA/EPSC (MROONEY) (FCORNEILLE)
EEB/ESC/IEC/EPC (MMcMANUS)
INR/RES (RWARNER)
SANTO DOMINGO FOR FCS AND FAS
TREASURY FOR ERIN NEPHEW
USTDA FOR NATHAN YOUNG AND PATRICIA ARRIAGADA
OPIC FOR ALISON GERMAK

E.O. 12958: N/A
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OPIC, AID, OAS, IBRD, XL, JM
SUBJECT: JAMAICA: BUDGET PLAN AND GAS TAX UNVEILED

REF: A) KINGSTON 306
B) KINGSTON 269
C) KINGSTON 245
D) KINGSTON 223

11. (SBU) SUMMARY: Minister of Finance and the Public Service Audley Shaw presented a plan to Parliament on April 23 to bridge a USD 204.5 million gap in the national budget. During the speech attended by emboffs, Shaw announced a further USD 90 million increase in the new Budget - from JD 547.7 billion (USD 6.2 billion) to JD 556.7 billion (USD 6.3 billion), with a large portion of the revenue to be raised from an increase of JD 8.75 (USD .10) per liter in the special consumption tax (SCT) on gasoline. In addition, the range of items not subject to the general consumption tax (GCT) will be narrowed, and the income tax threshold will be raised to cut taxes for lower income workers. Shaw also notably guaranteed that public sector workers would receive their promised 15 percent wage increase. Observers and analysts were concerned that both the proposed gas tax increase and disenchanted public sector workers could spark riots and unrest, but no such developments were reported after the budget presentation. End Summary.

TAX REFORMS, COMMITMENT TO PAY DEBT

12. (SBU) Shaw said he hopes his budget plan will assist Jamaica in achieving a more simplified, equitable, and competitive tax structure, while providing the necessary funds for loan repayment and necessary social programs. The plan focuses on addressing what he considers the three key issues facing the economy: structural deficiencies; a high debt burden; and an inefficient and inequitable tax system. He reconfirmed his commitment to honor all GOJ debt obligations, perhaps to palliate recent comments from PM Golding that appeared to signal potential debt restructuring in the future (reftels).

13. (SBU) Shaw announced an increase in the SCT that will add JD 8.75 (USD 0.10) per liter to the total cost of fuel, as well as an increase in Customs user fees on imported petroleum products from two percent to five percent. In making the case for the increase, Shaw argued that although Jamaica was not an oil producer, it had the third lowest fuel prices in the region. The GCT will remain at 16.5 percent; however, the list of items subject to the GCT will be greatly expanded. A 20 percent tax will now be imposed on telephone services. To benefit lower income workers, the plan includes a doubling of the income tax threshold from JD 220,272 (USD 2,503) to JD 441,168 J (USD 5,013). There is also a provision to raise the minimum threshold for taxing pensioners.

TAX AMNESTY PART DEUX

14. (SBU) A tax of 33.33 percent on dividends for nonresident shareholders of companies listed on the Jamaican Stock Exchange (JSE) will be imposed (Note: Dividends from companies listed on JSE have been tax exempt. Under the new measure residents will still enjoy tax free dividends, but non-residents will be subject to a tax. End note). A second tax amnesty for people off the tax register was also announced. The amnesty will end on October 31, 2009, and was issued with a warning of dire consequences for all whom do not come forward during the amnesty period. (NOTE: A tax amnesty in 2008 raised an additional JD 8 billion--about USD 112 million, reftels). To stimulate the real estate market, the plan calls for a further reduction in the transfer tax to 4 percent from 5 percent, and the stamp duty tax will also be reduced to 3 percent from 4.5 percent. All the tax measures will come into effect on April 27,, 2009, while the tax threshold will be implemented in two stages, the first in July 2009 and the second in January, 2010.

WIDEN THE NET

15. (SBU) To widen the tax net and reduce non compliance, he announced that the GOJ had established a Large Taxpayer Office to allow for simplified payment of taxes in one central location for the top 450 taxpaying entities; the creation of a Forensic Data Mining Intelligence Unit to identify a large sector of self-employed persons who have escaped the tax net, and the introduction of a new Central Management Treasury System to manage the country's cash more effectively (Note: The first two programs are being supported by the USG, reftels. End note). Shaw said he also has reestablished

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the Public Accountability Inspectorate to review audit reports and deal with issues referred to the office that require investigation.

PLANNED EXPENDITURES

16. (SBU) To appease the populace, which has long complained about the paltry state of most of the country's public infrastructure, Shaw revealed that twenty percent of the revenue collected from the SCT on gas will be dedicated to the improvement of roads through a Road Maintenance Fund. The percent dedicated to roads will rise next year 35 percent, and 50 percent in year three. The new budget will allow for the expansion of several social programs, including a school meals program and additional resources to alleviate hospital overcrowding and provide drugs for hospital patients. The elimination of hospital user fees and tuition payments for public high school students will continue. The Ministry of Agriculture also will receive funds for a Center of Excellence in Agriculture and research for increased use of greenhouse technologies.

COMMENT

17. (SBU) In light of the global economic crisis, Jamaica's debt burden, and rising tensions among factions regarding the best way to fill the budget gap, there was a general consensus among observers that the Minister's proposed plan was fair. Noted tax expert and member of Institute of Chartered Accountants, Ethlyn Norton-Coke, was pleased that many of her recommendations. Proposed during prior meetings with Shaw and his team, were part of his plan. She told Emboffs that she would give Shaw an "8 out of 10 for his plan". She said she also intended to give several radio interviews that evening and over the weekend to "sell" this tax plan to the Jamaican public.

The absence of unrest and protests so far following the announcement likely reflects a general public understanding that Jamaica's economic situation is indeed dire and the GOJ has little choice but to tighten belts and raise new revenue. Credit is also due to Audley Shaw for a bravura performance in what was almost certainly the most important speech of his life. End Comment.